

CITY OF GEORGE, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

TABLE OF CONTENTS

| | |
|--|-------|
| Officials | 1 |
| Independent Auditors' Report | 2-3 |
| Management Discussion and Analysis | 4-8 |
| Basic Financial Statements: | |
| Government-Wide Financial Statement: | |
| Statement of Activities and Net Assets – Cash Basis | 9-10 |
| Governmental Fund Financial Statement: | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | 11 |
| Proprietary Fund Financial Statement: | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | 12 |
| Fiduciary Fund Financial Statement: | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | 13 |
| Notes to Financial Statements | 14-21 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | 22-23 |
| Notes to Required Supplementary Information – Budgetary Reporting | 24 |
| Other Supplementary Information: | |
| Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds | 25 |
| Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds | 26 |
| Schedule of Indebtedness | 27-28 |
| Bond and Note Maturities | 29 |
| Schedule of Expenditures of Federal Awards | 30 |
| Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 31-32 |
| Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133 | 33-34 |
| Schedule of Findings and Questioned Costs | 35-37 |



CITY OF GEORGE, IOWA

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------------|--------------------------------------|---------------------|
| John Stegeman | Mayor | 12/31/07 |
| Ande Bruinsma | Council Members | 12/31/07 |
| Randy Riecks | Council Members | 12/31/07 |
| Ivan Staufacker | Council Members | 12/31/07 |
| Gerald Grave, Jr. | Council Members | 12/31/09 |
| Russ Hopp | Council Members | 12/31/09 |
| Bernette Weier | Clerk/Treasurer | Indefinite |
| Daniel DeKoter | Attorney | Indefinite |
| Wanda Parker | Library Board President | 12/31/11 |
| Ardyce Huff | Library Board Member | 12/31/10 |
| Mary Beth Lane | Library Board Member | 12/31/09 |
| Kim Chadwick | Library Board Member | 12/31/12 |
| Jim Cuttell | Evergreen Lawn Cemetery Board Member | 12/31/08 |
| BJ Gerken | Evergreen Lawn Cemetery Board Member | 12/31/10 |
| John Gerken | Evergreen Lawn Cemetery Board Member | 12/31/12 |
| Paul Altena | Evergreen Lawn Cemetery Board Member | Indefinite |
| Mike Bathke | Evergreen Lawn Cemetery Board Member | Indefinite |
| Dave Korthals | Evergreen Lawn Cemetery Board Member | Indefinite |
| Dwight Shaffer | Evergreen Lawn Cemetery Board Member | Indefinite |

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the City Council
City of George, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of George, Iowa, (the City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2008 on our consideration of the City of George, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Williams & Company, PC.

Certified Public Accountants

Spencer, Iowa
March 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of George provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- The City's total cash basis net assets decreased \$13,121 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$700 and the assets of the business type activities decreased approximately \$12,400.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basis financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is *"Is the City of George as a whole better off or worse as a result of the year's activities?"* The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- **Governmental Activities** include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the waterworks, sanitary sewer system, garbage and recycling. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. **Governmental Funds** account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road-Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. **Proprietary Funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, garbage and recycling. The water and sewer funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

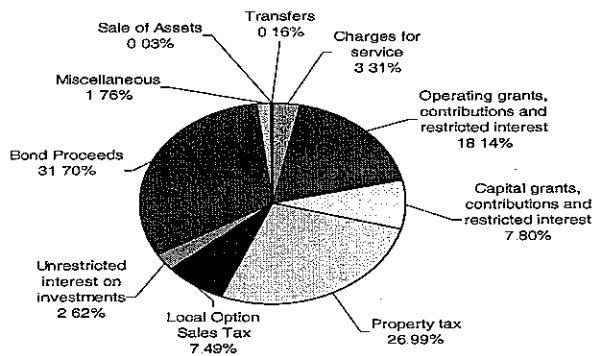
GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$594,785 to \$594,094. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

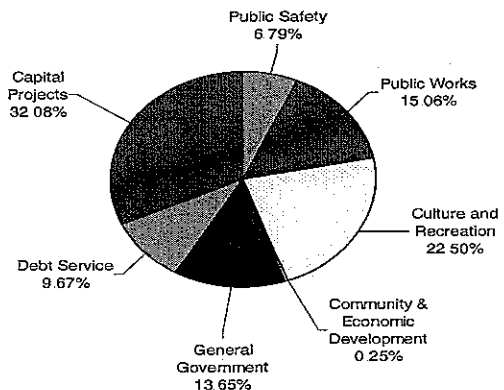
Changes in Cash Basis Net Assets of Governmental Activities

| | Year ended June 30, 2007 |
|---|--------------------------------|
| Receipts: | |
| Program Receipts: | |
| Charges for Service | \$ 21,911 |
| Operating Grants, Contributions and Restricted Interest | 162,524 |
| Capital Grants, Contributions and Restricted Interest | 71,995 |
| General Receipts: | |
| Property Tax | 249,221 |
| Local Option Sales Tax | 69,172 |
| Unrestricted Interest on Investments | 15,237 |
| Bond Proceeds | 292,760 |
| Miscellaneous | 16,273 |
| Sale of Assets | 265 |
| Transfers | 1,513 |
| Total Receipts | 900,871 |
| Disbursements: | |
| Public Safety | 62,003 |
| Public Works | 137,398 |
| Culture and Recreation | 194,275 |
| Community & Economic Development | 2,266 |
| General Government | 124,612 |
| Debt Service | 88,248 |
| Capital Projects | 292,760 |
| Total Disbursements | 901,562 |
| Decrease in Cash Basis | (691) |
| Cash Basis Net Assets Beginning of Year | 594,785 |
| Cash Basis Net Assets End of Year | \$ 594,094 |

Receipts by Source



Disbursements by Function



| Changes in Cash Basis Net Assets of Business Type Activities | |
|--|--------------------------------|
| | Year ended June 30, 2007 |
| Receipts: | |
| Program Receipts: | |
| Charges for Service: | |
| Water | \$ 120,578 |
| Sewer | 105,752 |
| Garbage | 50,080 |
| Recycle | 5,967 |
| Capital Grants, Contributions and Restricted Interest: | |
| Sewer | 461,224 |
| General Receipts: | |
| Unrestricted Interest on Investments | 7,938 |
| Bond Proceeds | 918,579 |
| Miscellaneous | 3,854 |
| Total Receipts | <u>1,673,972</u> |
| Disbursements: | |
| Water | 115,167 |
| Sewer | 1,507,715 |
| Garbage | 50,020 |
| Recycle | 11,987 |
| Transfers | 1,513 |
| Total Disbursements | <u>1,686,402</u> |
| Decrease in Cash Basis | (12,430) |
| Cash Basis Net Assets Beginning of Year | <u>181,825</u> |
| Cash Basis Net Assets End of Year | <u>\$ 169,395</u> |

The total business type activities cash balance decreased slightly from a year ago, decreasing from \$181,825 to \$169,395.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of George completed the year, its governmental funds reported a combined fund balance of \$594,094, a decrease of \$ 691 from last year's total of \$594,785. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$26,519 from the prior year to \$395,614.
- The Local Option Sales Tax Fund increased \$35,589 from the prior year to \$110,592. This increase was attributable to local option sales tax received exceeding disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$14,056 to \$146,481.
- The Sewer Fund cash balance decreased \$20,710 to \$9,727.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on December 6, 2006 and resulted in an increase in operating disbursements related to the possible cost overrun of approximately \$534,600 regarding the purchase of a truck, crushing of concrete, and the sewer lagoon project. The second amendment was approved on May 9, 2007 to provide for additional disbursements related to economic development, street resurfacing projects and the sewer lagoon project.

The City's receipts were \$1,447,509 less than budgeted. This was primarily due to the timing of grant reimbursements and draws on the sewer project loan.

Even with the budget amendments, total disbursements were \$818,934 less than the amended budget. This was primarily due to the timing of disbursements related to street improvements and the sewer lagoon project.

The City exceeded the amounts budgeted in the culture and recreation and debt service functions for the year ended June 30, 2007.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$1,207,712 of outstanding debt, compared to \$175,372 last year. Debt increased as a result of issuing debt for a sewer construction project and street projects.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$386,977 is significantly below its constitutional debt limit of \$1,595,570.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of George's elected and appointed officials and citizens considered many factors when settling the fiscal year 2008 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Each of the last two years has shown a growth in the housing industry where several new houses were built each year, following a four year slump where no new buildings were erected. This, along with the addition of two new businesses has created an increase in the tax base valuation. Property tax and proceeds from the urban renewal tax increment financing revenue bonds are expected to lead an increase in the 2008 budget. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out the 2007 Street Resurface Project. Budget disbursements are expected to rise slightly. Increased wage and cost-of-living adjustments, increases in street construction and maintenance and the expected cost of updating the swimming pool represent the largest increases. The City has added the swimming pool improvement as an increased program. The pool was constructed in 1959 and is now requiring some major repair. All of the aforementioned will be taken into consideration in planning the 2008 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the office of the City Clerk at 712-475-3612.

This page intentionally left blank.

**CITY OF GEORGE, IOWA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

CITY OF GEORGE, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

| | Disbursements | Charges for Service | Program Receipts | |
|---------------------------------------|---------------------|---------------------|---|---|
| | | | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental Activities: | | | | |
| Public Safety | \$ 62,003 | \$ - | \$ 34,028 | \$ - |
| Public Works | 137,398 | 2,528 | 98,276 | - |
| Culture and Recreation | 194,275 | 18,444 | 18,309 | 71,995 |
| Community & Economic Development | 2,266 | - | 3,611 | - |
| General Government | 124,612 | 939 | 8,300 | - |
| Debt Service | 88,248 | - | - | - |
| Capital Projects | 292,760 | - | - | - |
| Total Governmental Activities | 901,562 | 21,911 | 162,524 | 71,995 |
| Business-Type Activities: | | | | |
| Water | 115,167 | 120,578 | - | - |
| Sewer | 1,507,715 | 105,752 | - | 461,224 |
| Garbage | 50,020 | 50,080 | - | - |
| Recycle | 11,987 | 5,967 | - | - |
| Total Business-Type Activities | 1,684,889 | 282,377 | - | 461,224 |
| Total | \$ 2,586,451 | \$ 304,288 | \$ 162,524 | \$ 533,219 |

General Receipts:

Property and Other City Tax Levied for:
General Purpose
Debt Service
Local Option Sales Tax
Unrestricted Interest on Investments
Bond Proceeds
Miscellaneous
Sale of Assets

Transfers

Total General Receipts

Change in Cash Basis Net Assets

Cash Basis Net Assets Beginning of Year

Cash Basis Net Assets End of Year

Cash Basis Net Assets

Restricted:

Streets
Debt Service
Other Purposes

Unrestricted

Total Cash Basis Net Assets

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets**

| Governmental Activities | | Business Type Activities | Total |
|------------------------------------|-----------|-------------------------------------|--------------|
| \$ | (27,975) | \$ - | \$ (27,975) |
| | (36,594) | - | (36,594) |
| | (85,527) | - | (85,527) |
| | 1,345 | - | 1,345 |
| | (115,373) | - | (115,373) |
| | (88,248) | - | (88,248) |
| | (292,760) | - | (292,760) |
| | (645,132) | - | (645,132) |
| | - | 5,411 | 5,411 |
| | - | (940,739) | (940,739) |
| | - | 60 | 60 |
| | - | (6,020) | (6,020) |
| | - | (941,288) | (941,288) |
| | (645,132) | (941,288) | (1,586,420) |
| | 178,850 | - | 178,850 |
| | 70,371 | - | 70,371 |
| | 69,172 | - | 69,172 |
| | 15,237 | 7,938 | 23,175 |
| | 292,760 | 918,579 | 1,211,339 |
| | 16,273 | 3,854 | 20,127 |
| | 265 | - | 265 |
| | 1,513 | (1,513) | - |
| | 644,441 | 928,858 | 1,573,299 |
| | (691) | (12,430) | (13,121) |
| | 594,785 | 181,825 | 776,610 |
| \$ | 594,094 | \$ 169,395 | \$ 763,489 |
| \$ | 43,931 | \$ - | \$ 43,931 |
| | 415 | - | 415 |
| | 154,134 | - | 154,134 |
| | 395,614 | 169,395 | 565,009 |
| \$ | 594,094 | \$ 169,395 | \$ 763,489 |

See Notes to Financial Statements

CITY OF GEORGE, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

| | Special Revenue | | | | Total |
|---|-------------------|------------------|---------------------------|------------------|-------------------|
| | General | Road Use Tax | Local Option Sales Tax | Nonmajor | |
| Receipts: | | | | | |
| Property tax | \$ 167,263 | \$ - | \$ - | \$ 81,958 | \$ 249,221 |
| Other City Tax | - | - | 69,172 | - | 69,172 |
| Licenses and Permits | 2,910 | - | - | - | 2,910 |
| Use of Money and Property | 17,985 | - | 1,550 | 259 | 19,794 |
| Intergovernmental | 99,835 | 87,596 | - | - | 187,431 |
| Charges for Service | 13,887 | - | - | - | 13,887 |
| Miscellaneous | 50,806 | 10,680 | - | 2,432 | 63,918 |
| Total Receipts | <u>352,686</u> | <u>98,276</u> | <u>70,722</u> | <u>84,649</u> | <u>606,333</u> |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public Safety | 62,003 | - | - | - | 62,003 |
| Public Works | 16,742 | 110,829 | 7,707 | 2,120 | 137,398 |
| Culture and Recreation | 187,211 | - | - | 7,064 | 194,275 |
| Community & Economic Development | 2,266 | - | - | - | 2,266 |
| General Government | 94,620 | - | 27,426 | 2,566 | 124,612 |
| Debt Service | - | - | - | 88,248 | 88,248 |
| Capital Projects | 292,760 | - | - | - | 292,760 |
| Total Disbursements | <u>655,602</u> | <u>110,829</u> | <u>35,133</u> | <u>99,998</u> | <u>901,562</u> |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | (302,916) | (12,553) | 35,589 | (15,349) | (295,229) |
| Other Financing Sources (Uses) | | | | | |
| Bond Proceeds | 292,760 | - | - | - | 292,760 |
| Sale of Capital Assets | 265 | - | - | - | 265 |
| Operating Transfers In | 1,513 | - | - | 18,141 | 19,654 |
| Operating Transfers Out | (18,141) | - | - | - | (18,141) |
| Total Other Financing Sources (Uses) | <u>276,397</u> | <u>-</u> | <u>-</u> | <u>18,141</u> | <u>294,538</u> |
| Net Change in Cash Balances | (26,519) | (12,553) | 35,589 | 2,792 | (691) |
| Cash Balances Beginning of Year | <u>422,133</u> | <u>56,484</u> | <u>75,003</u> | <u>41,165</u> | <u>594,785</u> |
| Cash Balances End of Year | <u>\$ 395,614</u> | <u>\$ 43,931</u> | <u>\$ 110,592</u> | <u>\$ 43,957</u> | <u>\$ 594,094</u> |
| Cash Basis Fund Balance | | | | | |
| Reserved for Debt Service | \$ - | \$ - | \$ - | \$ 415 | \$ 415 |
| Unreserved: | | | | | |
| General Fund | 395,614 | - | - | - | 395,614 |
| Special Revenue Funds | - | 43,931 | 110,592 | 10,542 | 165,065 |
| Permanent Fund | - | - | - | 33,000 | 33,000 |
| Total Cash Basis Fund Balance | <u>\$ 395,614</u> | <u>\$ 43,931</u> | <u>\$ 110,592</u> | <u>\$ 43,957</u> | <u>\$ 594,094</u> |

CITY OF GEORGE, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

| | Enterprise | | | |
|---|-------------------|--------------------|------------------|--------------------|
| | Water | Sewer | Nonmajor | Total |
| Operating Receipts: | | | | |
| Use of Money and Property | \$ 5,822 | \$ 1,932 | \$ 184 | \$ 7,938 |
| Charges for Service | 115,678 | 105,752 | 56,047 | 277,477 |
| Miscellaneous | 8,479 | 275 | - | 8,754 |
| Total Operating Receipts | <u>129,979</u> | <u>107,959</u> | <u>56,231</u> | <u>294,169</u> |
| Operating Disbursements: | | | | |
| Business-Type Activities | 115,167 | 1,399,762 | 62,007 | 1,576,936 |
| Total Operating Disbursements | <u>115,167</u> | <u>1,399,762</u> | <u>62,007</u> | <u>1,576,936</u> |
| Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements | <u>14,812</u> | <u>(1,291,803)</u> | <u>(5,776)</u> | <u>(1,282,767)</u> |
| Non-Operating Receipts: | | | | |
| Intergovernmental | - | 461,224 | - | 461,224 |
| General Obligation Bond Proceeds | - | 918,579 | - | 918,579 |
| Debt Service | - | (107,953) | - | (107,953) |
| Net Non-Operating Receipts (Disbursements) | <u>-</u> | <u>1,271,850</u> | <u>-</u> | <u>1,271,850</u> |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | <u>14,812</u> | <u>(19,953)</u> | <u>(5,776)</u> | <u>(10,917)</u> |
| Other Financing Sources (Uses) | | | | |
| Operating Transfers In | - | - | - | - |
| Operating Transfers Out | (756) | (757) | - | (1,513) |
| Total Other Financing Sources (Uses) | <u>(756)</u> | <u>(757)</u> | <u>-</u> | <u>(1,513)</u> |
| Net Change in Cash Balances | <u>14,056</u> | <u>(20,710)</u> | <u>(5,776)</u> | <u>(12,430)</u> |
| Cash Balances Beginning of Year | <u>132,425</u> | <u>30,437</u> | <u>18,963</u> | <u>181,825</u> |
| Cash Balances End of Year | <u>\$ 146,481</u> | <u>\$ 9,727</u> | <u>\$ 13,187</u> | <u>\$ 169,395</u> |
| Cash Basis Fund Balances | | | | |
| Unreserved | \$ 146,481 | \$ 9,727 | \$ 13,187 | \$ 169,395 |
| Total Cash Basis Fund Balances | <u>\$ 146,481</u> | <u>\$ 9,727</u> | <u>\$ 13,187</u> | <u>\$ 169,395</u> |

CITY OF GEORGE, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 FIDUCIARY FUND
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

| | Trust Fund Evergreen Lawn Cemetery |
|--|--|
| Additions: | |
| Licenses and Permits | \$ 100 |
| Use of Money and Property | 3,988 |
| Miscellaneous | 13,406 |
| Total Additions | <u>17,494</u> |
| Deductions: | |
| Culture and Recreation | 11,029 |
| Total Deductions | <u>11,029</u> |
| Net Change in Cash Balances | 6,465 |
| Cash Balances Beginning of Year | <u>28,920</u> |
| Cash Balances End of Year | <u><u>\$ 35,385</u></u> |

CITY OF GEORGE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The City of George, Iowa, is a political subdivision of the State of Iowa, located in Lyon County. It was first incorporated in 1887, and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The city also provides water, sewer, garbage and recycling utilities for its citizens.

Reporting Entity -- For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Related Organization – The George Fire Fighters Association and George Emergency Medical Services are considered related organizations because these are organizations for which the City of George is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) even though the City of George approves a voting majority to the organizations' governing boards. George Bicentennial Museum is considered related organizations because this is an organization for which the City of George is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) even though the City of George appoints a voting majority to the organization's governing board.

Jointly Governed Organizations -- The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lyon County Assessor's Conference Board, Lyon County Joint E911 Service Board, Lyon County Emergency Management Commission, the Northwest Area Iowa Solid Waste Agency, the Lyon County Economic Development Board, the Lyon County Economic Development Consortium, and the Hazardous Material Response Commission (HAZMAT).

Joint Venture -- The City is a participant with Wheeler Township in a joint venture to maintain and operate Evergreen Lawn Cemetery. Evergreen Lawn Cemetery is governed by a six-member board composed of three appointees from the City and three from the Township. The City has an ongoing financial responsibility to Evergreen Lawn Cemetery. The City has a financial responsibility to provide funding to the Cemetery for the Cemetery's continued existence. The funding is in the form of cash, manpower, and equipment usage. The amount of cash expended by the City for the Cemetery amounted to \$4,847 for the fiscal year. The Cemetery's financial information is included in this audit report, as the City holds the Cemetery's assets in a trustee capacity.

CITY OF GEORGE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statements -- The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a certain extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints place on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment, community programs and services.

**CITY OF GEORGE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

Additionally, the City reports a fiduciary fund. Fiduciary funds are used to account for assets held by the City in a trustee capacity.

C. Measurement Focus and Basis of Accounting

The City of George maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

Note 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF GEORGE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 2 – CASH AND POOLED INVESTMENTS (Continued)

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Note 3 –NOTES PAYABLE

Long-term liability activity for the year ended June 30, 2007, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------------|----------------------|---------------------|-------------------|---------------------|------------------------|
| General Obligation Notes: | | | | | |
| 1999 Street Resurface Note | \$ 111,400 | \$ - | \$ 29,800 | \$ 81,600 | \$ 31,400 |
| 2002 Street Resurface Note | 46,290 | - | 33,672 | 12,618 | 12,618 |
| 2007 Street Resurface Note | - | 226,082 | - | 226,082 | 226,082 |
| 2007 Street Resurface Note | - | 66,678 | - | 66,678 | 66,678 |
| 2000 Fire Truck Note | 17,682 | - | 17,682 | - | - |
| | <u>175,372</u> | <u>292,760</u> | <u>81,154</u> | <u>386,978</u> | <u>336,778</u> |
| Revenue Notes | | | | | |
| 2006 Sewer Revenue Capital Loan Note | - | 820,734 | - | 820,734 | 42,000 |
| 2006 Real Estate Note | - | 97,845 | 97,845 | - | - |
| | <u>-</u> | <u>918,579</u> | <u>97,845</u> | <u>820,734</u> | <u>42,000</u> |
| Total | <u>\$ 175,372</u> | <u>\$ 1,211,339</u> | <u>\$ 178,999</u> | <u>\$ 1,207,712</u> | <u>\$ 378,778</u> |

On June 12, 2007, the City issued a short-term general obligation note for the 2007 Street Resurface Project in the amount of \$226,082. The note bears interest of 6.00% and matures on July 12, 2007.

On June 26, 2007, the City issued a short-term general obligation note for the 2007 Street Resurface Project in the amount of \$66,678. The note bears interest of 6.00% and matures on July 12, 2007.

On November 21, 2006, the City issued sewer revenue notes in the amount of \$1,120,000 for the construction costs and extensions to the Sewer System Utility. The notes bear interest of 3.00% mature annually and are secured by future net revenues of the Sewer System Utility. As of June 30, 2007, the City had drawn \$820,734 on the note. The revenue notes were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from sewer revenues.

CITY OF GEORGE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 3 –NOTES PAYABLE (Continued)

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

| Year Ending June 30, | General Obligation Notes | | Revenue Notes | | Total | |
|----------------------------|-----------------------------|----------|---------------|-----------|-------------|-----------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2008 | \$336,778 | \$22,169 | \$42,000 | \$24,517 | \$378,778 | \$46,686 |
| 2009 | 33,200 | 2,560 | 43,000 | 23,255 | 76,200 | 25,815 |
| 2010 | 17,000 | 867 | 44,000 | 21,962 | 61,000 | 22,829 |
| 2011 | - | - | 46,000 | 20,637 | 46,000 | 20,637 |
| 2012 | - | - | 47,000 | 19,255 | 47,000 | 19,255 |
| 2013-2017 | - | - | 256,000 | 74,260 | 256,000 | 74,260 |
| 2018-2023 | - | - | 342,734 | 34,615 | 342,734 | 34,615 |
| Total | \$386,978 | \$25,596 | \$820,734 | \$218,501 | \$1,207,712 | \$244,097 |

Note 4 – CONSTRUCTION COMMITMENTS

On June 30, 2007, the City had an uncompleted construction contract related to the lagoon project. The remaining commitment on this construction contract is approximately \$105,659, which will be paid as work on the project progresses.

Note 5 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$8,115, \$9,038 and \$8,887, respectively, equal to the required contributions for each year.

CITY OF GEORGE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 6 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|---------------|------------------|
| Debt Service | General Fund | \$ 18,141 |
| General Fund | Enterprise: | |
| | Sewer | 756 |
| | Water | 757 |
| | | <u>1,513</u> |
| Total | | <u>\$ 19,654</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

Note 7 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned by unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-----------------|------------------|
| Vacation | \$ 4,000 |
| Sick Leave | <u>17,000</u> |
| Total | <u>\$ 21,000</u> |

This liability has been computed based on rates of pay in effect at June 30, 2007.

Note 8 – SUBSEQUENT EVENTS

On July 26, 2007, the City issued a General Obligation Capital Loan Note, in the amount of \$405,000. The proceeds were used to retire the 1999 and 2007 Street Resurface Debt and to complete the remaining 2007 street resurface projects. The note bears interest at the rate of 4.25% per annum, with semi-annual payments and matures on December 1, 2017.

CITY OF GEORGE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 9 – RISK MANAGEMENT

The city is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the state of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile, liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2007 were \$23,396.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

CITY OF GEORGE, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 9 – RISK MANAGEMENT (Continued)

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GEORGE, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|---|---------------------------------|--------------------------------|--------------------|
| Receipts: | | | |
| Property tax | \$ 249,221 | \$ - | \$ 249,221 |
| Other City Tax | 69,172 | - | 69,172 |
| Licenses and Permits | 2,910 | - | 2,910 |
| Use of Money and Property | 19,794 | 7,938 | 27,732 |
| Intergovernmental | 187,431 | 461,224 | 648,655 |
| Charges for Service | 13,887 | 277,477 | 291,364 |
| Miscellaneous | 63,918 | 8,754 | 72,672 |
| Total Receipts | 606,333 | 755,393 | 1,361,726 |
| Disbursements: | | | |
| Public Safety | 62,003 | - | 62,003 |
| Public Works | 137,398 | - | 137,398 |
| Culture and Recreation | 194,275 | - | 194,275 |
| Community & Economic Development | 2,266 | - | 2,266 |
| General Government | 124,612 | - | 124,612 |
| Debt Service | 88,248 | - | 88,248 |
| Capital Projects | 292,760 | - | 292,760 |
| Business-Type Activities | - | 1,684,889 | 1,684,889 |
| Total Disbursements | 901,562 | 1,684,889 | 2,586,451 |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | (295,229) | (929,496) | (1,224,725) |
| Other Financing Sources (Uses) | | | |
| Bond Proceeds | 292,760 | 918,579 | 1,211,339 |
| Sale of Capital Assets | 265 | - | 265 |
| Operating Transfers In | 19,654 | - | 19,654 |
| Operating Transfers Out | (18,141) | (1,513) | (19,654) |
| Total Other Financing Sources (Uses) | 294,538 | 917,066 | 1,211,604 |
| Net Change in Cash Balances | (691) | (12,430) | (13,121) |
| Cash Balances Beginning of Year | 594,785 | 181,825 | 776,610 |
| Cash Balances End of Year | \$ 594,094 | \$ 169,395 | \$ 763,489 |

| Budgeted Amounts | | Final to |
|-------------------|-------------------|--------------------|
| Original | Final | Total Variance |
| \$ 232,888 | \$ 232,888 | \$ 16,333 |
| 71,472 | 71,472 | (2,300) |
| 645 | 645 | 2,265 |
| 20,285 | 20,285 | 7,447 |
| 610,333 | 610,333 | 38,322 |
| 270,600 | 270,600 | 20,764 |
| 37,604 | 1,603,012 | (1,530,340) |
| <u>1,243,827</u> | <u>2,809,235</u> | <u>(1,447,509)</u> |
| 62,272 | 64,172 | 2,169 |
| 156,233 | 539,383 | 401,985 |
| 154,368 | 172,376 | (21,899) |
| 12,879 | 39,879 | 37,613 |
| 104,858 | 135,858 | 11,246 |
| 85,617 | 85,617 | (2,631) |
| 450,000 | 450,000 | 157,240 |
| 217,600 | 1,918,100 | 233,211 |
| <u>1,243,827</u> | <u>3,405,385</u> | <u>818,934</u> |
| - | (596,150) | (628,575) |
| - | 510,680 | 700,659 |
| - | - | 265 |
| - | - | (19,654) |
| - | - | 19,654 |
| <u>-</u> | <u>510,680</u> | <u>700,924</u> |
| - | (85,470) | 72,349 |
| <u>776,610</u> | <u>776,610</u> | <u>-</u> |
| <u>\$ 776,610</u> | <u>\$ 691,140</u> | <u>\$ 72,349</u> |

CITY OF GEORGE, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
FOR THE YEAR ENDED JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursement for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$2,161,558. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF GEORGE, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

| | Library | Employee Benefits | Debt Debt Service | Permanent Perpetual Care | Total |
|---|-----------------|----------------------|-------------------------|--------------------------------|------------------|
| Receipts: | | | | | |
| Property Tax | \$ - | \$ 11,587 | \$ 70,371 | \$ - | \$ 81,958 |
| Use of Money and Property | 42 | 52 | 165 | - | 259 |
| Miscellaneous | 2,432 | - | - | - | 2,432 |
| Total Receipts | <u>2,474</u> | <u>11,639</u> | <u>70,536</u> | <u>-</u> | <u>84,649</u> |
| Disbursements: | | | | | |
| Public Works | - | 2,120 | - | - | 2,120 |
| Culture and Recreation | 1,456 | 5,608 | - | - | 7,064 |
| General Government | - | 2,566 | - | - | 2,566 |
| Debt Service | - | - | 88,248 | - | 88,248 |
| Total Disbursements | <u>1,456</u> | <u>10,294</u> | <u>88,248</u> | <u>-</u> | <u>99,998</u> |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | 1,018 | 1,345 | (17,712) | - | (15,349) |
| Other Financing Sources | | | | | |
| Operating Transfers In | - | - | 18,141 | - | 18,141 |
| Total Other Financing Sources | <u>-</u> | <u>-</u> | <u>18,141</u> | <u>-</u> | <u>18,141</u> |
| Net Change in Cash Balances | 1,018 | 1,345 | 429 | - | 2,792 |
| Cash Balances Beginning of Year | <u>2,811</u> | <u>5,368</u> | <u>(14)</u> | <u>33,000</u> | <u>41,165</u> |
| Cash Balances End of Year | <u>\$ 3,829</u> | <u>\$ 6,713</u> | <u>\$ 415</u> | <u>\$ 33,000</u> | <u>\$ 43,957</u> |
| Cash Basis Fund Balances | | | | | |
| Reserved for Debt Service | \$ - | \$ - | \$ 415 | \$ - | \$ 415 |
| Unreserved: | | | | | |
| Special Revenue Funds | 3,829 | 6,713 | - | - | 10,542 |
| Permanent Fund | - | - | - | 33,000 | 33,000 |
| Total Cash Basis Fund Balance | <u>\$ 3,829</u> | <u>\$ 6,713</u> | <u>\$ 415</u> | <u>\$ 33,000</u> | <u>\$ 43,957</u> |

CITY OF GEORGE, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

| | Enterprise | | |
|---|-----------------|-----------------|------------------|
| | Garbage | Recycle | Total |
| Operating Receipts: | | | |
| Use of Money and Property | \$ 123 | \$ 61 | \$ 184 |
| Charges for Service | 50,080 | 5,967 | 56,047 |
| Total Operating Receipts | <u>50,203</u> | <u>6,028</u> | <u>56,231</u> |
| Operating Disbursements: | | | |
| Business-Type Activities | 50,020 | 11,987 | 62,007 |
| Total Operating Disbursements | <u>50,020</u> | <u>11,987</u> | <u>62,007</u> |
| Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements | <u>183</u> | <u>(5,959)</u> | <u>(5,776)</u> |
| Net Change in Cash Balances | 183 | (5,959) | (5,776) |
| Cash Balances Beginning of Year | <u>8,007</u> | <u>10,956</u> | <u>18,963</u> |
| Cash Balances End of Year | <u>\$ 8,190</u> | <u>\$ 4,997</u> | <u>\$ 13,187</u> |
| Cash Basis Fund Balances | | | |
| Unreserved | \$ 8,190 | \$ 4,997 | \$ 13,187 |
| Total Cash Basis Fund Balances | <u>\$ 8,190</u> | <u>\$ 4,997</u> | <u>\$ 13,187</u> |

**CITY OF GEORGE, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2007**

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|---------------------------------|------------------|-------------------|--------------------------------|
| General Obligation Debt: | | | |
| 1999 Street Resurface | 12/1/1999 | 5.10% | \$ 25,500 |
| 2002 Street Resurface | 10/10/2002 | 3.50% | 172,000 |
| 2007 Street Resurface | 6/12/2007 | 6.00% | 226,082 |
| 2007 Street Resurface | 6/26/2007 | 6.00% | 66,678 |
| 2000 Fire Truck | 11/1/2000 | 4.50% | 103,000 |
| Total | | | |
| Revenue Notes: | | | |
| 2006 Sewer | 11/21/2006 | 3.00% | \$ 820,734 |
| 2006 Short-Term Real Estate | 9/29/2006 | 6.00% | 97,845 |
| Total | | | |

SCHEDULE 3

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid | Interest Due and Unpaid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|-------------------------------|
| \$ 111,400 | \$ - | \$ 29,800 | \$ 81,600 | \$ 5,307 | \$ 342 |
| 46,290 | - | 33,672 | 12,618 | 1,328 | 36 |
| - | 226,082 | - | 226,082 | - | 669 |
| - | 66,678 | - | 66,678 | - | 44 |
| 17,682 | - | 17,682 | - | 459 | - |
| <u>\$ 175,372</u> | <u>\$ 292,760</u> | <u>\$ 81,154</u> | <u>\$ 386,978</u> | <u>\$ 7,094</u> | <u>\$ 1,091</u> |
| \$ - | \$ 820,734 | \$ - | \$ 820,734 | \$ 9,217 | \$ 1,214 |
| - | 97,845 | 97,845 | - | 892 | - |
| <u>\$ -</u> | <u>\$ 918,579</u> | <u>\$ 97,845</u> | <u>\$ 820,734</u> | <u>\$ 10,109</u> | <u>\$ 1,214</u> |

**CITY OF GEORGE, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2007**

General Obligation Bonds

| Year Ending June 30, | <u>Street Resurface Issued Jan 1, 1999</u> | | <u>Street Resurface Issued Oct 10, 2002</u> | | <u>Street Resurface Issued Jun 12, 2007</u> | | <u>Street Resurface Issued Jun 26, 2007</u> | |
|----------------------------|--|------------------|---|------------------|---|-------------------|---|------------------|
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2008 | 5.10% | \$ 31,400 | 3.50% | \$ 12,618 | 6.00% | \$ 226,082 | 6.00% | \$ 66,678 |
| 2009 | 5.10 | 33,200 | | | | | | |
| 2010 | 5.10 | 17,000 | | | | | | |
| Total | | <u>\$ 81,600</u> | | <u>\$ 12,618</u> | | <u>\$ 226,082</u> | | <u>\$ 66,678</u> |

Revenue Notes

| Year Ending June 30, | <u>Sewer Issued Nov 21, 2006</u> | |
|----------------------------|--------------------------------------|-------------------|
| | Interest Rates | Amount |
| 2008 | 3.00% | \$ 42,000 |
| 2009 | 3.00 | 43,000 |
| 2010 | 3.00 | 44,000 |
| 2011 | 3.00 | 46,000 |
| 2012 | 3.00 | 47,000 |
| 2013 | 3.00 | 48,000 |
| 2014 | 3.00 | 50,000 |
| 2015 | 3.00 | 51,000 |
| 2016 | 3.00 | 53,000 |
| 2017 | 3.00 | 54,000 |
| 2018 | 3.00 | 56,000 |
| 2019 | 3.00 | 58,000 |
| 2020 | 3.00 | 59,000 |
| 2021 | 3.00 | 61,000 |
| 2022 | 3.00 | 63,000 |
| 2023 | 3.00 | 45,734 |
| Total | | <u>\$ 820,734</u> |

CITY OF GEORGE, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

| Grantor/Program | CFDA Number | Program Expenditures |
|--|----------------|-------------------------|
| Indirect: | | |
| US Department of Housing and Urban Development: | | |
| Iowa Department of Economic Development: | | |
| Community Development Block Grants/State's Program | 14.228 | \$ 458,352 |
| Environmental Protection Agency | | |
| Iowa Finance Authority | | |
| Capitalization Grants for Clean Water State Revolving Loan Funds | 66.458 | 499,322 |
| US Department of Health and Human Services: | | |
| Iowa Department of Public Health | | |
| Harkin Wellness Grant | 93.283 | <u>58,202</u> |
| Total | | <u>\$ 1,015,876</u> |

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

This page intentionally left blank.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of the City Council
The City of George
George, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of George, Iowa (City) as of and for the year ended June 30, 2007, which collectively comprise the City's March 24, 2008. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control

that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-B-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
March 24, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Members of the City Council
The City of George
George, Iowa

Compliance

We have audited the compliance of the City of George, Iowa (City), with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards, and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of George complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of George is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item III-B-07 to be a material weakness.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of George and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
March 24, 2008

**CITY OF GEORGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Part I: Summary of the Independent Auditors' Results

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - CFDA Number 14.228 – Community Development Block Grants/State's Program.
 - CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of George, Iowa did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and other recordkeeping functions are performed by the same employee.

Recommendation – We realize segregation of duties is difficult with limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this

Conclusion – Response accepted

II-B-07 Financial Reporting – During the audit, we identified several errors in posting. Therefore, we proposed several adjusting journal entries some of which were material.

Recommendation – The City should follow the uniform chart of accounts to ensure that all entries are recorded in the proper accounts.

Response – The City will implement procedures to ensure disbursements and receipts are posted to the proper account.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs For Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 14.228: Community Development Block Grants/State's Program

Federal Award Year: 2007

Department of Housing and Urban Development

Passed through the Iowa Department of Economic Development

III-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and other recordkeeping functions are performed by the same employee.

Recommendation – We realize segregation of duties is difficult with limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this

Conclusion – Response accepted

III-B-07 Financial Reporting – During the audit, we identified several errors in posting. Therefore, we proposed several adjusting journal entries some of which were material.

Recommendation – The City should follow the uniform chart of accounts to ensure that all entries are recorded in the proper accounts and that federal grant revenue and expenditures are recorded in separate accounts.

Response – The City will implement procedures to ensure disbursements and receipts are posted to the proper account.

Conclusion – Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07: Certified Budget – Although the budget was amended on December 6, 2006 and May 9, 2007, the amendments occurred after disbursements exceeded the original budget for the business type function and general government function. Also, total disbursements for the year ended June 30, 2007, exceeded the amount budgeted in the Culture and Recreation and Debt Service function.

Recommendation – Although the budget was amended in accordance with Chapter 384.18 of the Code of Iowa, care should have been taken to ensure that the amendment is done prior to disbursements exceeding the original budget and that the amendment is sufficient to prevent disbursements from exceeding the amended budget.

Response – The City will make an effort to amend the budget before disbursements are exceeded and will ensure the amended budget has disbursements high enough so that they are not exceeded.

Conclusion – Response accepted.

IV-B-07: Questionable Disbursements – No expenditures that did not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.

IV-C-07: Travel Expense – No expenditures of the City were for travel expenses of spouses of the City officials or employees.

IV-D-07: Business Transactions – No business transactions between the City officials or employees were noted.

IV-E-07: Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operation.

IV-F-07: Council Minutes – No transactions were found that we believe should have been approved by the Board minutes but were not.

IV-G-07: Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 128 and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-07: Issuance of 1099's – 1099's should be issued when required.

Recommendation – Review accounts at year end for possible disbursements where a 1099 is required.

Response – Accounts will be reviewed.

Conclusion – Response accepted.

IV-I-07: Publication of Salaries – The City did not publish annual gross salaries in accordance with an Attorney General's Opinion dated April 12, 1978.

Recommendation – Annual gross salaries should be published in accordance with Chapter 372.13 of the Code of Iowa and the Attorney General's Opinion dated April 12, 1978.

Response – We will attempt to comply with the recommendation.

Conclusion – Response accepted.

